

Message Text

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PAGE 01 MUSCAT 01482 300556Z

21

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SUBJECT: CHANGING ROLE OF COMMERCIAL BANKING IN OMAN

1. DESPITE SLOWDOWN IN OMAN'S ECONOMIC GROWTH DURING PAST YEAR, COMMERCIAL BANKING HAS CONTINUED TO FLOURISH. ABSENCE OF RESTRICTIONS ON MOVEMENT OF FUNDS IN AND OUT OF THE COUNTRY AND RELATIVELY HIGH PROFIT MARGINS ENJOYED BY COMMERCIAL BANKS HAVE ENCOURAGED RAPID GROWTH OF JOINT VENTURES BETWEEN INTERNATIONAL BANKS AND OMAN'S MERCHANT COMMUNITY. TOTAL COMMERCIAL CREDIT IS NOW AT LEVEL OF OVER \$500 MILLION; MAINTAINING THIS LEVEL OF LENDING REQUIRES SUBSTANTIAL BORROWING FROM ABROAD, AND IT IS ESTIMATED THAT ONE THIRD OF AGGREGATE BANK ASSETS COME FROM EXTERNAL SOURCES. BANK OPERATIONS HAVE BEEN GENERALLY RESTRICTED TO SHORT-TERM LOANS AND COMMISSIONS ON REMITTANCES BY EXPATRIATE WORKERS, BUT WE FORESEE A GRADUAL CHANGE IN THE NATURE OF COMMERCIAL BANKING HERE AS THESE TRADITIONAL ACTIVITIES REACH A SATURATION POINT.

2. AFTER A SLOWDOWN IN LATTER HALF OF 1975, COMMERCIAL BANK CREDIT EXPANDED RAPIDLY AGAIN IN 1976, RISING 24 PERCENT BETWEEN
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DECEMBER 1975 AND JUNE 1976. THE NUMBER OF COMMERCIAL BANKS

REGISTERED ROSE TO 19, AND THERE WAS SHARP INCREASE IN NUMBER OF BANK BRANCHES IN THE INTERIOR. WHILE ESTABLISHED, LARGER BANKS IN OMAN ARE PRUDENT IN LENDING, NEWER BANKS ARE LOWERING THEIR INTEREST RATES AND LENDING TO MARGINAL CUSTOMERS TO POINT WHERE THEIR RESERVES ARE STRETCHED DANGEROUSLY THIN. MANY OBSERVERS FEEL THAT THERE IS OVER-EXPANSION OF COMMERCIAL BANKING, AND SHAKEOUT WILL COME SOON--A BELIEF SHARED BY CENTRAL BANK. CENTRAL BANK GUIDELINES ON CAPITAL DEPOSITS, LENDING RATIOS, AND INTEREST RATES HAVE NOT PROVEN TO BE SUFFICIENT, AND OMANGOV MAY TIGHTEN ITS CONTROL OF COMMERCIAL BANKING SECTOR BY MORE DIRECT METHODS.

3. NOTEWORTHY ASPECT OF THIS EXPANSION HAS BEEN GRADUAL DECLINE OF BRITISH BANKING INFLUENCE AND AGGRESSIVE ENTRY OF BANKING INTERESTS FROM FRANCE AND NEIGHBORING COUNTRIES. FOR EXAMPLE, SOCIETE GENERALE (FRANCE) AND LOCAL OMANI MERCHANT FAMILY HAVE RECENTLY OPENED JOINT VENTURE BANK WHICH WILL MAKE MEDIUM-TERM PROJECT LOANS AS WELL AS PROVIDING SHORT-TERM CREDIT. BANK SADERAT OF IRAN AND CREDIT LYONNAIS WILL OPEN JOINT BANK SOON, AND NATIONAL BANK OF ABU DHABI QUIETLY ESTABLISHED BRANCH IN MUSCAT LAST MONTH. BRITISH BANKS (WHICH USED TO MANAGE OMAN'S NONETARY SYSTEM UNTIL 1974) ARE SHOWING SMALL DECLINE IN OVERALL SHARE OF NEW LOANS, WHILE NATIONAL BANK OF OMAN (JOINT VENTURE BETWEEN BANK OF AMERICA AND OMANI BUSINESSMEN) HAS BEEN ESPECIALLY ENERGETIC IN SEEKING OUT NEW BUSINESS BY CUTTING ITS PROFIT MARGIN.

4. COMMENT: OMANGOV IS PLACING ITS HOPES FOR FUTURE DEVELOPMENT ON INCREASED INVESTMENT FROM PRIVATE SECTOR. THESE HOPES CANNOT BE FULFILLED UNLESS COMMERCIAL BANKING SECTOR BEGINS TO SHIFT FROM TRADITIONAL REMITTANCE AND SHORT-TERM CREDIT OPERATIONS TO MAKING MEDIUM-TERM LOANS. NEW ARAB AND FRENCH BANKS WHICH OPENED RECENTLY ARE EXPECTED TO FILL THE GAP PARTLY. CITIBANK, ONLY AMERICAN BANK IN OMAN, HAS STARTED TO MAKE SUBSTANTIAL LOANS TO SELECTED PRIVATE FIRMS AND COULD PLAY LEADING ROLE IN CHANGING BANKING SITUATION HERE.

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